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SIPDIS

SENSITIVE

STATE FOR EB/IFD/OMA AND EUR/SE
TREASURY FOR OASIA/MDM:J. FRANCO

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SUBJECT: TRANSPARENCY OF BUDGETS/MILITARY SPENDING - TURKEY

REF: STATE 239929

SENSITIVE BUT UNCLASSIFIED - DELIBERATIVE PROCESS.

1. (SBU) Summary: Military spending in Turkey is under civilian control though the military has a significant voice in budgetary decisions. The spending is transparent, though line commanders have some authority to reallocate between uses.

Military spending is subject to internal and external audit, including by civilian authorities. Though a portion of military spending is funded through extra-budgetary revenues, these, too, are subject to civilian control and are being phased out. A major reform of all public sector budgeting

and auditing processes is greatly increasing budgetary transparency and the effectiveness of the audit function for all public spending, including for defense. End Summary.

2. (U) Post provides below responses to reftel questions.

General Overview of Audit Procedures:

3. (U) Military expenditures are subject to both internal audits in the relevant government agencies (Ministry of Defense, SSM, and Ministry of Interior) and to external audit by the Court of Accounts (Sayistay). At the SSM, the civilian agency that handles procurement of significant military equipment, for example, there is an internal audit committee consisting of representatives of the Ministry of Defense, the Ministry of Finance, and the Prime Ministry, the latter two (at least) being civilians. SSM officials specified that the auditors look not only at military spending, but also at the inflows, including the "special funds" that are outside the budget (see below). GOT officials told us copies of all audits go to the Prime Ministry and Presidency. By law, external audits by the Sayistay also go to Parliament. The Prime Ministry inspectors also have the right to obtain information from any government officials at any time.

4. (U) In December 2003, with substantial assistance from the World Bank and IMF, Turkey enacted the Public Financial Management and Control (PFMC) Law, a major revamping and strengthening of the budget, auditing and financial control processes. This far-reaching reform, had multiple objectives. Designed to bring Turkish budgetary and financial control practices in line with EU norms, it also creates greater transparency, functional accounting, and a beefed-up auditing function. The law institutes very specific requirements for the internal audits in every ministry and provides for a government-wide internal audit coordination board. The law mandates annual internal audits of all government agencies.

Military Budget and On-Budget and Off-budget Revenues and Expenses:

5. (SBU) Spending for the armed forces and security forces comes under the budgets of the Ministry of Defense, SSM, and Ministry of Interior (for Coast Guard and the para-military Jandarma). A portion of military spending has traditionally come from the Defense Industry Support Fund, which consists of earmarked revenues from a variety of state enterprise commercial activity and excise taxes (portions of National Lottery receipts, tobacco taxes, and mobile phone licenses, for example). Though this funding has not been included in the budget, and did not require passage by parliament, SSM officials told us Parliament has the authority to obtain information about these funds and the inflows and outflows under the Fund are subject to audit. Aside from Parliamentary and auditor oversight, all major procurement decisions are decided by a committee consisting of the Chief of the General Staff, the Prime Minister and the Minister of Defense, the latter two being civilians. In practice, however, the military has a considerable voice in the size and specifics of its budget, as civilian authorities have tended to defer to the military on its

priorities.

16. (SBU) Under the PFMC law, all extra-budgetary funds are being brought on budget, with the Defense Industry Support Fund slated to disappear in 2007. During the transition period, it is shrinking. SSM officials told us it had declined from about \$1.4 billion a few years ago to about \$800 million now. This is relatively small in relation to total on-budget Defense Spending, which GOT budget documents put at about \$7.6 billion in 2004, at current exchange rates.

Military Component of the National Budget:

17. (SBU) Since all defense expenditure is subject to Parliamentary oversight and the vast majority of the spending goes through the budgetary approval process, Parliament has ample opportunity to debate budget priorities, as does the Council of Ministers. In the context of overall budget austerity due to Turkey's large debt burden and history of repeated financial crises, the GOT has tried to protect spending on health and education. In the 2005 budget which the GOT recently proposed to Parliament, the share of non-interest spending going to Defense will decline slightly from 2004, whereas Education and Health spending will increase slightly.

Comment:

18. (SBU) The passage of the PFMC, with a strong push from the IFI's, combined with the GOT's interest in EU accession, have institutionalized a gradual but clear normalization of the budget and audit processes for Defense Spending.

EDELMAN